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CURRENT SUPPORT BRIEF

THE CZECHOSLOVAK ECONOMY IN 1959 AND PROSPECTS FOR 1960

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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The Czechoslovak regime continues to follow an economic policy reminiscent in certain respects of the policies of the "Stalinist" period. Since 1958 there has been a marked step-up of the post-1955 investment drive which will strongly support the planned continuation in 1960 of vigorous industrial expansion. Measures have been taken to extract more work from industrial workers and farmers in an intensified economic effort designed primarily to provide the foundation for the ambitious programs of the new Third Five Year Plan (1961-65). While the population's standard of living improved slightly in 1959, after no change in 1958, the large scale of the current investment boom and the impact of agricultural policies will make significant improvements in consumption difficult to achieve in 1960.

Developments in 1959

The year 1959 was a favorable one for the Czechoslovak economy except in agriculture, where bad weather and the inefficiencies of the collective farm system caused a slight decline in production. Industry continued to expand vigorously with a gain of approximately 11 percent in gross output, despite the unsettling effects of widespread revisions of the wage system. The percentage increase in national income in 1959 was probably about the same as in each of the two preceding years--seven or eight percent--but capital investments rose by 18 percent or about twice as fast as in 1957-58. 1/

A considerable increase in both imports and exports in 1959 appears to have played an important role in bolstering the Czechoslovak economy. During 1957-58, development of foreign trade had been erratic, with declines in exports in 1957 and in imports in 1958. Although Czechoslovakia again achieved an export surplus in 1959, the surplus was smaller than in 1958, imports' having increased by 18.1 percent and exports' by 13.9 percent. This reduction of the export surplus lessened pressure on domestic resources caused by the sharp increase in capital investments.

Thanks partly to a sharp rise in imports of foods, personal consumption per capita increased by perhaps as much as four percent in 1959; there had been no change in per capita consumption in 1958. The 1959 increase was however less than the some 6.5 percent planned, partially because of the poor results in agriculture. The urban population undoubtedly experienced greater improvement in its scale of living than did the farm population, although workers in industry were obviously putting forth greater effort under the new wage system to achieve an increase in pay, which in terms of real wages probably averaged less than three percent over 1958.

Industry. According to official claims, the growth in industrial production was about the same in 1959 as in 1957-58 and as the average for the post-1950 period--about 11 percent a year.* Of special importance in the achievement of this growth in production

* If the growth of production were measured in the same way as in Western countries, a somewhat lower rate would be obtained--possibly seven to nine percent yearly.

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during 1958-59 was the favorable trend in labor productivity, which increased at a greater rate (7.5 to eight percent) than in the two preceding years.

Another primary factor in this very good showing is the high rate of capital formation in industry. The stock of industrial plant and equipment has increased at an average rate of about six percent since 1956 and probably increased about seven percent in 1959. ^{2/} The creation of new plant in 1958 was probably largely responsible for 1959 increases of 11.5 percent in electric power production and of 11 percent in crude steel production. In the case of steel, this increase was the largest since 1953. The good performance in these basic industries in turn led to improved supply of materials for the processing industries--particularly machine-building, where productive capacity still is not fully utilized. The considerable growth of raw material imports and ~~exports of manufactures~~ also contributed to better utilization of industrial productive capacity. Although plans for production of pig iron, coke and rolled steel products were slightly underfulfilled, the increases in their production were substantial.

Of all industrial branches, machine building--as in the past--grew most rapidly in response to expanding investment and export demands. Special pressures are being exerted to increase production of machinery because of the high targets for exports and for plant construction and modernization during the early years of the coming Five Year Plan (1961-65).

Agriculture. Agricultural output, which declined about 1.5 percent in 1959, has stagnated for four successive years. Even by official estimates, production remains below the 1936 level. In 1959, spring frosts hurt the fruit crop, heavy rains adversely affected the harvesting of grains, and a subsequent prolonged drought seriously reduced yields of potatoes and sugar beets while it delayed winter sowing. Some success was achieved in increasing the number of hogs, but there was little change in over-all domestic meat production. To offset shortfalls in agricultural production, imports of foods were increased by almost 22 percent, including a 31-percent rise in meat imports.

Unfavorable weather was not the only factor depressing agricultural production in 1959. Production had stagnated in 1956-58, when weather conditions were generally favorable. Nor can low agricultural yields be attributed to lack of means. For several years agriculture has received about 15-16 percent of total investments--roughly in proportion to its contribution to the national income ^{3/}--as well as considerably increased supplies of chemical fertilizer. In all probability, recent collectivization and the inability of the regime to raise efficiency on farms long since collectivized are mainly responsible for agriculture's poor showing.

Increased agricultural investment since 1956 has been almost entirely devoted to the development of the collectives. In addition, the basic equipment of state tractor stations is now being transferred to collectives. In spite of these many advantages given collective farms, the value of their net production per hectare has failed to show an upward trend. Moreover, the private sector of agriculture--for years virtually deprived of investments and by and large consisting of small-scale farms--continued to produce a larger net output per hectare than the socialized sector.

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The dominant feature of the 1960 plan is continuation of the intensified investment drive in heavy industry, which is closely tied to production goals of the Third Five Year Plan (1961-65). To assure an adequate metallurgical base for the planned great expansion of engineering production in the approaching five-year period, the regime has prescribed a crash program for completing the construction of eight new rolling mills in 1960, one of very large size. Moreover, new starts on the construction of steel and chemical facilities scheduled to be in full operation within the next five years will place a large additional burden on the economy.

The building of the giant East Slovak Steel Combine at Kosice began this year. Construction of the large "Slovnaft" oil refinery at Bratislava is to be completed in 1960, although operation at full capacity will begin only in 1965, when the refinery will process most of the Soviet crude oil pumped by way of the new international pipeline. Czechoslovakia's section of the line is to be opened in January 1962. 4/ Big expenditures in 1960 will also be applied to building a combine for producing synthetic fertilizers and to a synthetic rubber plant in Kralupy. The latter will eventually supply half of the country's requirements for rubber. Some of these new facilities will play a major role even in 1960 in support of large planned increases in the output of such key products as crude steel (11.8 percent), rolled products (14.4 percent), and electric power (11.4 percent).

In industry as a whole, gross production is planned to increase by 10.2 percent and labor productivity, by 7.3 percent. Reaching these goals would cause relevant five-year (1956-60) targets set in October 1958 to be surpassed. Industrial production would rise by 64 percent compared with an originally planned five-year increase of 54 percent, and productivity, by 40 percent compared with a planned 35 percent.

Despite rising investments in agriculture, the planned increase in agricultural production for 1960, variously reported at 12 to 16 percent, appears unrealistic in view of past performance and the many new administrative measures intended to promote efficiency but likely to have a negative impact on the morale of many farmers. The new agricultural price system introduced in January, for example, involves a complex series of changes in taxes, subsidies, and pricing of machinery and farm produce which make growth in farm income contingent on increases in productivity to above-plan levels; but lowered personal income for some farmers will result. The already low morale and high average age of collective farmers, the difficulty in attracting young persons to agricultural careers, and poor management of collectives make prospects for immediately increasing efficiency very poor. Moreover, the agricultural labor force has been steadily declining in numbers--by 150,000 since 1955. The regime hopes to find better managers for weak collectives either by merging them with more efficient ones or by staffing them with specialists graduating from agricultural schools and with local party officials displaced by this year's administrative reorganization. However, mergers will tend to reduce incentives in the more efficient collectives, and many demoted party officials may prove less than helpful.

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Given the continued investment boom to promote the most rapid possible rate of growth in heavy industry and a policy of maintaining or increasing the export surplus in foreign trade, the economy will be hard-pressed to provide a significant improvement in the consumer's scale of living. Should the lagging performance of agriculture persist, planned gains of about five percent in personal consumption are almost certain to be considerably underfulfilled.

6 April 1960

CIA/RR CB 60-22

Page 5

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Sources:

1. Rude Pravo, 9 Feb 60. U.
2. Statisticka Rocenka, 1959, p. 39. U.
3. Ibid., p. 35, 109. U.
4. Rude Pravo, 24 Dec 59. U.

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6 April 1960

CIA/RR CB 60-22

Page 6

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